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## **Cultural and Socio-Economic Restrictions for the Adoption of the IESBA Code of Ethics for Professional Accountants in the European Countries**

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**Abstract:**

*This paper examines the adoption of the Code of Ethics of the International Ethics Standard Board of Accountants (IESBA) by European accounting organizations. Further, it analyses the influence of Hofstede's countries' cultural dimensions and accounting organizations' seniority on the adoption of the IESBA Code of Ethics. The results suggest that accounting bodies' ethical guidelines are increasingly aligned to the IESBA Code. However, this study highlights that cultural differences have great influence on ethical regulation. These results provide insights into the factors that affect the harmonization of ethical standards, which is a necessary step towards the internationalization of the accounting profession.*

**Key Words:** *IESBA code of ethics, accounting profession, IFAC, national culture, accounting bodies' seniority, European countries*

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**JEL Classification :** *M41, M42*

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## **1. Introduction**

The globalization of the economy requires reliable financial reporting, which reinforces the importance of the accounting profession to guarantee the correct functioning and stability of the financial system. The complexity of international transactions makes it impossible that the accounting and auditing standards remain within the confines of the country in which the company or the professionals operate. Accounting professionals already work in international firms that carry out their activity and render their services in different countries. Therefore, the internationalisation of the profession and a study of it are essential (Nobes and Parker, 2008).

The International Federation of Accountants (IFAC) was created in 1977 and is comprised by 175 members and associates in 130 countries. IFAC is the global organization for the accountancy profession dedicated to serving the public interest by supporting high-quality international standards and helping to build strong professional accountancy organizations (IFAC, 2014). According to the IFAC's view, a fundamental way to serve the public interest is to develop, promote, and enforce high-quality, internationally recognized standards, including ethical standards for professional accountants (IFAC, 2014).

At this respect, IFAC has established the International Ethics Standards Board for Accountants (IESBA) to set internationally appropriate ethics standards for professional accountants worldwide. These ethical standards are compiled in the Code of Ethics for Professional Accountants issued by IESBA. The objective of the IFAC is to promote the implementation of this Code of Ethics for all accountant members, whatever the area in which professionals operate (education, public practice, businesses, amongst others) and whatever the country in which professionals carry out their responsibilities.

As Loft *et al.* (2006) state the power of IFAC as a global accounting and auditing regulator is undeniable, proof of this is that the European Commission (EC) adopted the International Standards on Auditing promoted by this organization. Moreover, the fact that the European Commission states in its audit regulation (Directive 2006/43/EC) that auditors must comply with the IESBA Code of Ethics highlights the positioning of the IFAC as a global leader. However, to date not all the countries of the European Union have adopted the code proposed by the IFAC, nor have the countries that have adopted it done so in the same way (Clements *et al.*, 2009a).

The need to reinforce the ethical conduct of the profession and confidence in what it does takes special importance. Auditors need to demonstrate ethical conduct in order

to live up to the expectations of those who place trust in their reports for decision-making purposes. Corporate scandals of the beginning of the 21st century as well as the recent global financial crisis have led to a widespread distrust in the accounting profession. There is an imperative need of regaining investors' confidence to restore economic stability (Achim *et al.* 2010). In this regard, the Public Interest Oversight Board (PIOB) considers the worldwide adoption of the Code of Ethics for Professional Accountants as a top priority project (PIOB, 2012).

Taking into account the role IFAC plays as an audit regulator globally, in agreement with Loft *et al.* (2006) we consider that additional research on the process by which IFAC's pronouncements are issued as well as the degree to which these are adopted and implemented is necessary. National accounting professional bodies, members of the IFAC, belong to different countries with its historical, legal, cultural or socioeconomic background. Accordingly, all these variables could influence the acceptance of a single and universal code of ethics for professional accountants.

The globalisation in which we are currently immersed requires that the differences between countries to which professionals belong are consigned to the background. Thus it is necessary an international ethics regulation that unifies the criteria and values to guide professionals in dealing with the conflicts of interest that arise in the accounting profession.

The aim of this paper is to explore the variables that might limit or restrict the adoption of the IESBA Code of Ethics. Accordingly, we have analyzed the influence of the seniority of the national accounting professional organizations and the national cultural dimensions put forward by Hofstede (1980) on the adoption of the IESBA Code of Ethics. The results of this study provide evidence about the factors that could explain the adoption of the IESBA Code of Ethics by European accounting organizations. This understanding could assist the IFAC in its aim to obtain a convergence of ethical standards, which is a necessary step towards the internationalization of the accounting profession. A single code of ethics for all the members of the IFAC enhances the quality of services provided by professional accountants, ensures greater confidence in the accounting profession and may also reduce considerably the costs for international accounting firms.

The work is divided into the following sections. After the introduction, in the second section, we present a review of the academic literature and the development of hypotheses. Then, in the third section, the methodology used to carry out the study is provided. Results are presented in the fourth section and lastly, we present the most relevant conclusions and future lines of research.

## **2. Review of Literature and Hypotheses Development**

### **2.1. Seniority of the Professional Body**

The development of a code of conduct involves a long process of finding out, discussing and agreeing the objectives of the code, as well as the values and behaviours that the professional organization wants to uphold. Accordingly, developing and implementing an effective code of ethics is a challenging matter for professional organizations. In this respect, professional bodies' seniority in the profession may have a bearing on the capacity of the professional organization to develop and approve a code of conduct for its members that is accepted by the community to which it belongs.

The development of the accounting profession in Europe has not been homogenous. IFAC and its ethics committee were established in 1977. By then, it was long since the accounting profession had been developed in some countries and in turn, professional bodies had already been created. The accounting profession in the United Kingdom – the cradle of the modern accounting profession – has been characterized by its self-regulatory capacity and its high prestige in society. The main accounting bodies in the United Kingdom have competed throughout history to gain influence on the regulation and organisation process of the profession (Willmott, 1986; Thalassinos et al., 2011; Thalassinos et al., 2013). To maintain a position of power, members of the accounting profession have tried to show the public that they are independent and trustworthy via different regulatory practices and via the issue and review of their ethical standards (Sikka and Willmott, 1995). Thus, in the early development of the accounting profession in the United Kingdom and Ireland, codes of conduct played a vital role in strengthening public confidence.

However, not all European countries experienced such an early development of the profession. Indeed, more than 30% of European accounting bodies were created after the establishment of IFAC. For instance, Eastern European countries such as Romania, Hungary, Bulgaria and Poland, together with the Baltic States, have developed much later in the profession. It was the transition from the centralized economy to a market economy that led to a comprehensive reform of accounting practice in the Eastern European countries. Having embarked on the process of integration into the European Union, the transition economies have had to adapt their regulations to EU Directives, including ethical standards.

In some of these countries, the accounting system was structured by taking international acceptance as a basis. In this way, the benefits of adopting international standards were stressed. Adopting international standards involved a lower cost for the authorities and professional bodies and also allowed to present a highly-credible

financial information to investors (Dedoulis, 2006; King *et al.*, 2001). Moreover, in most of the Central and Eastern European countries governmental institutions did not provide any ethical framework for the transition processes of these economies (Winkler and Remišová, 2007).

Given this context, we put forward that more senior accounting bodies, set up in countries where the profession was early developed, have had resources, competence and sufficient experience to be able to develop accounting and auditing regulation, including ethical standards. Furthermore, members of these bodies have historically used ethics codes to protect the privileges attached to the profession, such as self-regulation. In this regard, in response to criticism by society, codes of ethics have contributed to the image of professional organizations as trustworthy bodies in regulating the conduct of their members (Parker, 1987). These national professional bodies, that had already developed a code of ethics, could be reluctant to adopt the IESBA Code. For these organizations, the adoption of the IESBA Code would be more complex and costly than maintaining their own code of ethics.

On the contrary, bodies with less seniority may have committed to the Code of Ethics put forward by IFAC. As the Code has been issued by an established international organisation, lends credibility to the profession and facilitates the work of national regulators. Therefore, we raise the following hypothesis:

*H<sub>1</sub>: The most senior accounting organizations will be less prone to adopting the IESBA Code of Ethics.*

## **2.2. Cultural Influence**

One of the most widely-used cultural frameworks is that proposed by Hofstede (1980), in which culture was defined as “the collective programming of the mind that distinguishes the members of one category of people from those of another” (1980, p. 25). Based on questionnaires for IBM employees in 72 countries, Hofstede identified four cultural dimensions and classified 50 countries and 3 regions based on the relative values obtained in each of the dimensions. The cultural dimensions identified are as follows: Power Distance Index (PDI), Individualism (IDV), Masculinity (MAS) and Uncertainty Avoidance Index (UAI).

Hofstede (1991) pointed out that values constitute the most profound manifestation of culture. In this respect, numerous studies in the field of business ethics have acknowledged the importance of culture in ethical decision making (Hunt and Vitell, 1986; Vitell *et al.*, 1993). Arnold *et al.* (2007) questioned whether a single code of ethics could be interpreted and applied in the same way in the different countries where an international company operated. In the field of the accounting profession different authors have analyzed the impact of culture on accountants’ ethical

decisions via international comparative studies (Roxas and Stoneback, 1997; Tsui and Windsor, 2001). At this respect, the study of accountants' code of ethics from a cultural standpoint is of great relevance, as the professional code of ethics is "the most concrete cultural form in which professions acknowledge their societal obligation" (Abbott, 1983, p. 856).

If the values and principles included in the code of conduct are not consistent with the values defended by the culture in which the code is being applied, it will cease to be useful for the purpose of the objectives that have been set out. Likewise, society may not be receptive to the message that the code is trying to convey and, therefore, the expectations of that society may not be met. Along these lines, Cohen *et al.* (1992, p. 690) argue that "imposed ethical guidelines will be resisted where they are inconsistent with a society's long-standing and entrenched cultural norms". These authors suggested that the diversity in interpreting the code among different cultures is a major limitation for an international code of ethics. In this same vein, Clements *et al.* (2009b) used Hofstede's dimensions to explain the decision taken by IFAC members all around the world regarding whether to adopt the IESBA Code or to develop their own code of ethics. They concluded that accounting bodies in cultures with high uncertainty avoidance and individualism were less prone to adopting the IESBA Code of Ethics. However, these results may differ considering solely European countries. Accordingly, this paper analyses the influence of culture on the adoption of the IESBA Code of Ethics by professional bodies from European countries.

### **2.2.1. Individualism/Collectivism**

Individualism describes the way in which an individual relates to and lives with society. In a high individualistic society, individuals consider themselves to be a separate unit from the groups to which they belong. Conversely, collectivist societies are characterized by the reference to the group to which the individual belongs. Thus, members of the group tend to share a set of values and to respect them. In collectivist societies, individuals do not distance themselves from the groups to which they belong and are strongly influenced by their norms.

Individualism brings an agent's responsibility to the forefront (Williams and Zinkin, 2008). Accordingly, in countries with a relatively high score in this dimension, professional bodies will tend to pay more attention to their own ethical standards, thus developing their own codes of conduct. Similarly, national accounting bodies belonging to societies that feature a high degree of individualism will most likely not transfer the responsibility for establishing ethical standards to an external international body such as IFAC (Clements *et al.*, 2009b).

Therefore, our second hypothesis is as follows:

*H<sub>2</sub>: Accounting organizations belonging to individualistic countries will be less prone to adopting the IESBA Code of Ethics.*

### **2.2.2. Masculinity/Femininity**

Masculinity defines the trend in a culture towards more masculine patterns of conduct. A society is considered to be highly masculine when it values and prizes heroism, assertiveness, competition and material success, among other factors.

Clements *et al.* (2009b, p. 387) stated that “In a high masculinity society, individuals would likely prefer autonomy to dependence on others. In addition, there would most likely be an aversion to following rules in high masculinity societies, especially rules mandated by an outside international organization such as the IFAC.”

Conversely, a more feminine society values cooperation, care, quality of life and consensus. They prefer to use negotiation and compromise in conflict resolution.

In this regard, we consider that, in order to avoid conflicts, there might be a tendency in feminine countries to reach a consensus with IFAC to implement the code of ethics, instead of maintaining or developing their own code of ethics.

The hypothesis proposed is as follows:

*H<sub>3</sub>: Accounting organizations belonging to masculine countries will be less prone to adopting the IESBA Code of Ethics.*

### **2.2.3. Power Distance**

Power Distance refers to the degree to which individuals in a society accept inequalities in power and consider it normal. Thus, in societies with “low power distance”, institutions are responsible for reducing inequalities, and a hierarchical structure is not accepted. Conversely, societies with “high power/distance” accept inequalities and the hierarchical organisation as normal. In these societies there is a need for dependence on more powerful people (Hofstede, 1991). When considering the ethicality of an action, high power distance societies will look more to superiors and formal codes of conduct than to peers or informal norms (Vitell *et al.*, 1993).

IFAC, through the IESBA ethics standards setting board, is at this moment the superior organization in respect to the issuing of ethical pronouncements. The acceptance of the IESBA Code by the national accounting bodies implies delegating their power to this international organization. As stated above, IFAC has gained increasing power as global regulatory body (Loft *et al.*, 2006). According to Clements *et al.* (2009b) in high power distance countries, where there is a need for dependence on more powerful authorities, the accounting bodies will be more likely to yield control of ethical standard setting to IFAC.

Conversely, in low power distance countries the national accounting bodies will perform a significant role in the process of developing and adopting a code that is in line with own ideal requirements, instead of adopting the IESBA Code of Ethics as issued. Therefore, our forth hypothesis states as follows:

*H<sub>4</sub>: Accounting organizations belonging to high power distance countries will be more prone to adopting the IESBA Code of Ethics.*

#### **2.2.4. Uncertainty Avoidance**

Uncertainty Avoidance refers to the extent to which individuals feel insecure in uncertain or unknown situations. It refers to how society tolerates uncertainty and how it faces the future. According to Hofstede (1991, p. 113) “This feeling is, among other things, expressed through nervous stress and in a need for predictability: a need for written and unwritten rules”. Norms are expressed in the analysis of culture as “ways in which a society tries to prevent uncertainties in the behaviour of people” (Hofstede, 1991, p. 120). Therefore, societies that avoid uncertainty need numerous and precise laws and regulations. Moreover, these societies are intolerant towards ambiguity and do not accept any deviations from pre-established conduct.

Conversely, in societies that feature limited uncertainty avoidance, people lead far better with ambiguity and uncertainty. Deviations in conduct are accepted more easily and the individual’s opinion is highly regarded. Therefore, regulations tend to be less rigid and more flexible.

Singh *et al.* (2011) found that higher scores on this index were reflected in a more prescriptive nature of corporate codes. Given that the IESBA Code of Ethics is a principle-based code rather than one oriented towards specific rules, it may be less in accordance with that demanded by societies with high uncertainty avoidance. Such societies would prefer a detailed code of conduct, with numerous rules that attempt to deal with any possible ethical dilemmas that professional accountants may face. Therefore, professional bodies in countries where people feel threatened by uncertain or unknown situations will probably develop their own codes of conduct, which will tend to be more detailed and rigid and based on rules rather than on principles. Further, taking into account that societies with high uncertainty avoidance tend to prefer stability and are reluctant to change, they will prefer to maintain the code of ethics developed by their own accounting body or the legal regulation of their country. Therefore, the fifth hypothesis we raise is as follows:

*H<sub>5</sub>: Accounting organizations belonging to high uncertainty avoidance countries will tend to be less prone to adopting the IESBA Code of Ethics.*



### **2.2.5. Normative/Pragmatism**

Initially, a fifth dimension, Long-Term Orientation, also known as Confucian dynamism, was added in 1991 (Hofstede, 2001). “Long-term oriented societies foster pragmatic virtues oriented towards future rewards, in particular saving, persistence, and adapting to changing circumstances. Short-term oriented societies foster virtues related to the past and present such as national pride, respect for tradition, preservation of “face”, and fulfilling social obligations.” (Hofstede, 2014). Later, this cultural dimension was replicated as [Pragmatic versus Normative \(PRA\)](#) dimension in 2010, by Michael Minkov. It was indexed for 93 countries. This dimension describes how people in the past, as well as today, relate to the fact that so much that happens around us cannot be explained.

In societies with a normative orientation most people have a strong desire to explain as much as possible. People in such societies have a strong concern about establishing the absolute truth and a need for personal stability. They exhibit great respect for social conventions and traditions and a focus on achieving quick results. In normative countries, there is a need for clear structures and well defined rules prevailing against more pragmatic and relaxed approaches to life, particularly, in the long term time.

In societies with a pragmatic orientation, most people don’t have a need to explain everything, as they believe that it is impossible to understand fully the complexity of life. People believe that truth depends very much on situation, context and time. They adapt according to the circumstances, they show an ability to accept contradictions and perseverance in achieving results (Hofstede, 2014).

In this context, we could assume that professional organizations belonging to pragmatic countries will be more prone to adopt the IESBA Code of Ethics as they will be less reluctant to changes and will show less need for absolute truths. The hypothesis is stated as follows:

*H<sub>6</sub>: Accounting organizations belonging to high pragmatic countries will be more prone to adopting the IESBA Code of Ethics.*

### **2.2.6. Indulgence/Restraint**

This dimension was added in 2010 and is defined as the extent to which people try to control their desires and impulses, based on the way they were raised. Relatively weak control is called “indulgence” and relatively strong control is called “restraint”. Cultures can, therefore, be described as indulgent or restrained. Societies with a low score in this dimension have a tendency to cynicism and pessimism. Also, in contrast to indulgent societies, restrained societies do not put much

emphasis on leisure time and control the gratification of their desires. People with this orientation have the perception that their actions are restrained by social norms and feel that indulging themselves is somewhat wrong (Hofstede, 2014).

Due to the recent addition of this dimension to the analysis of culture, as far as the authors know, this variable has not been investigated before. We cannot anticipate any relationship between Indulgence or Restraint and adoption of the IESBA Code of Ethics. Therefore we will state the hypothesis in the null form:

*H<sub>7</sub>: There is no relationship between the score in the Indulgence/Restraint Dimension of the country to which accounting organizations belong and the adoption of the IESBA Code of Ethics.*

### **2.3. Economic Influence**

Hofstede recommends conducting the cultural analysis taking into account the economic development of the country, as “if the “hard” (economic, biological, technological) variables predict a country variable better, cultural indexes are redundant” (Hofstede, 2001, p. 68). Some authors (Clements *et al.*, 2009a; Cohen *et al.*, 1992) have pointed to the implication of economic variables in the development of the Code of ethics. Accordingly, we have included the countries’ GDP per capita as a control variable.

## **3. Empirical Analysis**

### **3.1 Sample and Data Collection**

The sample is comprised by 49 accounting bodies from 29 European countries. We have analyzed countries from the European Union, Norway and Iceland. As Iceland, Liechtenstein and Norway form part of the European Economic Area (EEA), they must adopt all EU legislation related to the EU single market. Accordingly, these three countries and the EU members are required to apply the 8<sup>th</sup> Directive in their national legislation. The only country member of EEA that has no professional body belonging to IFAC is Liechtenstein.

Data about the European countries that have adopted the IESBA Code of Ethics has been obtained from the IFAC Member Body Compliance Program (IFAC, 2014). The questionnaire about the adoption of the IESBA Code of ethics was completed by accounting bodies from different countries in 2006 and 2007 and has been revised via plans of action that have been carried out during 2013 and 2014.

In order to be admitted as a member of the IFAC, this organization establishes some requirements. Statements of Membership Obligations (SMO) are the basis of the

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IFAC Member Body Compliance Program. Member bodies and associates are required to provide ongoing self-assessment on the way they address the requirements of SMO as evidence of their efforts to adopt and implement the international standards, including standards governing ethics (IFAC, 2014). SMO 4 covers the member bodies' obligation to support the adoption and implementation of the IESBA Code of Ethics. In particular, a member of the IFAC shall not apply less stringent ethical standards than those stated in the Code.

Cowton (1998) highlights the potential of secondary data, such as that obtained by regulatory bodies, for advancing business ethics research. In this regard, this author remarks the need to appropriately understand and process the gathered information. As regards independent variables, the information concerning the seniority of professional bodies refers to the year in which the body in question was set up. To set the foundation date of the body we have also considered the date in which the professional bodies, that would later merge to found the current organization, were formed. We have obtained this information directly from the websites of the member bodies. As regards cultural variables, we have obtained the information for the countries to which the professional bodies belong from Hofstede's website (2014). As the national cultural dimensions of Cyprus are not available, we have eliminated the accounting body from that country from the sample. As for countries' level of wealth, we have included the natural logarithm of per capita Gross Domestic Product of the 29 countries to which IFAC member bodies belong. The data is expressed in US dollars and refers to 2012 (World Bank, 2014).

### **3.2. Methodology**

First of all, we have classified the data about the IESBA Code adoption into three groups. The first category includes those professional organizations that have not adopted the IESBA Code. The second category refers to the organizations that have implemented a process of convergence between their own ethical requirements and the IESBA Code. In this second category we have included those organizations that have adopted the IESBA Code with additional guidance in some parts of the code or with additional requirements. These additional guidelines are mainly related to independence provisions, in order to comply with their national regulation. Finally, the third category consists on those professional organizations that have adopted the IESBA Code as issued without modifications.-

We have carried out a descriptive analysis of the sample in order to explore the seniority of member bodies, as well as to describe some cultural and socio-economic characteristics of the country to which the accounting bodies belong. The relationship between the independent variables is examined by bivariate Pearson's correlations. We have then carried out an ordinal logistic regression analysis in

which we study the relationship between the decision to adopt the IESBA Code by European accounting bodies and the different variables subject to analysis.

The dependent variable measures whether the accounting body has adopted the IESBA Code or not. We have specified this variable as an ordinal variable, being value 1 when the organisation has not adopt the IESBA Code of Ethics and neither has implemented the convergence with it; 2 when the organisation has implemented the convergence with the IESBA Code of Ethics and 3 if the organization adopted the IESBA Code of Ethics without modifications. We have employed the following ordinal logistic regression to test the hypotheses described previously in this study:

$$\text{CODE (1,2,3)} = \beta_0 + \beta_1 \text{SENIORITY} + \beta_2 \text{IDV} + \beta_3 \text{MAS} + \beta_4 \text{PDI} + \beta_5 \text{UAI} + \beta_6 \text{PRA} + \beta_7 \text{IND} + \beta_8 \text{Ln(GDPCAP)} + e \quad (1)$$

In which SENIORITY refers to the number of years that have passed since the national accounting body was set up, IDV is the country's individualism index, MAS is the country's masculinity index, PDI is the country's power distance index, UAI is the country's uncertainty avoidance index, PRA is the country's pragmatism index, IND is the country's indulgence index and Ln(GDPCAP) is the natural logarithm of the per capita Gross Domestic Product for the country.

## 4. Results

### 4.1. Descriptive Results

Table 1 shows the national accounting bodies, the year in which they were set up, the cultural dimensions of the country to which they belong and the degree to which the accounting organizations have adopted the IESBA Code.

**Table 1: Adoption of the IESBA Code of Ethics and independent variables for the countries in the sample**

Accounting body	Country	Year set up	IDV	MAS	PDI	UAI	PRA	IND	IESBA Code
Institut Österreichischer Wirtschaftsprüfer	Austria	1904	55	79	11	70	60	63	1
Kammer der Wirtschaftstreuhänder	Austria	1947	55	79	11	70	60	63	1
Institut des Réviseurs d'Entreprises	Belgium	1953	75	54	65	94	82	57	2
Institut des Experts-comptables et des Conseils Fiscaux	Belgium	1985	75	54	65	94	82	57	2
Institute of Certified Public Accountants of	Bulgaria	1996	30	40	70	85	69	16	3

Bulgaria									
Croatian Association of Accountants and Financial Experts	Croatia	1954	33	40	73	80	58	33	3
Croatian Audit Chamber	Croatia	2006	33	40	73	80	58	33	3
Chamber of Auditors of the Czech Republic	Czech Republic	1992	58	45	35	74	70	29	3
Union of Accountants of the Czech Republic	Czech Republic	1990	58	45	35	74	70	29	3
FSR - danske revisorer	Denmark	1912	74	16	18	23	35	70	2
Estonian Association of Auditors	Estonia	1999	60	30	40	60	82	16	3
HTM-tilintarkastajat - GRM - revisorer ry	Finland	1951	63	26	33	59	38	57	3
KHT-yhdistys-Föreningen CGR ry	Finland	1925	63	26	33	59	38	57	3
Compagnie Nationale des Commissaires aux Comptes	France	1969	71	43	68	86	63	48	1
Conseil Supérieur de l'Ordre des Experts-Comptables	France	1942	71	43	68	86	63	48	1
Institut der Wirtschaftsprüfer	Germany	1932	67	66	35	65	83	40	2
Wirtschaftsprüferkammer (WPK)	Germany	1961	67	66	35	65	83	40	2
Institute of Certified Public Accountants of Greece (SOEL)	Greece	1955	35	57	60	112	45	50	3
Chamber of Hungarian Auditors	Hungary	1988	80	88	46	82	58	31	2
Félag Löggiltra Endurskodenda, FLE	Iceland	1935	60	10	30	50	28	67	3
Accounting Technicians Ireland	Ireland	1983	70	68	28	35	24	65	2
Chartered Accountants Ireland	Ireland	1888	70	68	28	35	24	65	2
The Institute of Certified Public Accountants in Ireland	Ireland	1943	70	68	28	35	24	65	3
Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili	Italy	1953	76	70	50	75	61	30	1
Association of Accountants of the Republic of Latvia	Latvia	1994	70	9	44	63	69	13	3
Latvian Association of	Latvia	1994	70	9	44	63	69	13	2

Certified Auditors									
Lithuanian Chamber of Auditors	Lithuania	2000	60	19	42	65	82	16	1
Institut des Réviseurs d'Entreprises	Luxemburg	1953	60	50	40	70	64	56	2
Ordre des Experts-Comptables du Luxembourg	Luxemburg	1999	60	50	40	70	64	56	2
The Malta Institute of Accountants	Malta	1942	59	47	56	96	47	66	2
Den Norske Revisorforening (DnR)	Norway	1930	69	8	31	50	35	55	1
Accountants Association in Poland	Poland	1907	60	64	68	93	38	29	1
National Chamber of Statutory Auditors	Poland	1992	60	64	68	93	38	29	1
Ordem dos Técnicos Oficiais de Contas	Portugal	1995	27	31	63	104	28	33	1
Ordem dos Revisores Oficiais de Contas (OROC)	Portugal	1974	27	31	63	104	28	33	2
Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)	Romania	1992	30	42	90	90	52	20	2
The Chamber of Financial Auditors of Romania	Romania	1999	30	42	90	90	52	20	3
Slovenska Komora Auditorov	Slovakia	1992	52	110	104	51	77	28	2
The Slovenian Institute of Auditors	Slovenia	1993	27	19	71	88	49	48	2
Instituto de Censores Jurados de Cuentas de España	Spain	1942	51	42	57	86	48	44	1
Föreningen Auktoriserade Revisorer (Far)	Sweden	1923	71	5	31	29	53	78	3
Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)	The Netherlands	1895	80	14	38	53	67	68	2
Association of Accounting Technicians (AAT)	United Kingdom	1978	89	66	35	35	51	69	2
Institute of Financial Accountants	United Kingdom	1916	89	66	35	35	51	69	3
The Association of Chartered Certified	United Kingdom	1891	89	66	35	35	51	69	2

Accountants									
The Chartered Institute of Management Accountants (CIMA)	United Kingdom	1919	89	66	35	35	51	69	3
The Chartered Institute of Public Finance and Accountancy	United Kingdom	1885	89	66	35	35	51	69	3
The Institute of Chartered Accountants in England and Wales	United Kingdom	1870	89	66	35	35	51	69	2
The Institute of Chartered Accountants of Scotland	United Kingdom	1854	89	66	35	35	51	69	2

As can be seen in Table 1, not all the professional organizations have adopted the IESBA Code. In fact, from the total of the sample (n=49), 11 bodies, representing the 22.40% of the sample, have not adopted the IESBA Code and neither have they brought their ethical requirements in line with it. 21 national accounting organizations (42.9%) have implemented convergence of their ethical requirements with the IESBA Code of ethics. Overall, organizations in this category have additional provisions to the IESBA Code stated by their own national law. Finally, 17 are the accounting bodies that have adopted the IESBA Code of Ethics as it is issued without modifications, which implies 34.70% from the total of the sample. Compared to the study conducted by Clements *et al.* (2009a) results from the present study show higher degree of adoption of the Code as well as a greater alignment of national ethical standards with the IESBA Code on the part of the IFAC member bodies.

Table 2 shows the descriptive statistics for the independent variables selected.

**Table 2: Descriptive statistics**

	Mean	Median	Standard deviation	Range	Minimum	Maximum
SENIORITY	60.10	60	40.02	152	7	159
IDV	62.35	63	18.62	62	27	89
MAS	47.73	47	23.57	105	5	110
PDI	47.51	40	20.54	93	11	104
UAI	66.35	70	23.69	89	23	112
PRA	54.59	52	17.05	59	24	83
IND	47.29	50	19.33	65	13	78
Ln(GDPCAP)	10.28	10.57	0.64	2.77	8.85	11.55

In Table 2 we can observe the wide range (146) evidenced by the variable referring to seniority of the professional body belonging to IFAC. While some of the European accounting bodies date back to more than a century, others barely go back a decade. The data also shows great cultural diversity, despite having taken solely European countries into account.

Table 3 presents the Pearson correlation coefficients for the seniority of the professional body, Hofstede's dimensions and countries' per capita GDP.

**Table 3: Pearson's correlation coefficients and significance levels of independent variables**

	Seniority	IDV	MAS	PDI	UAI	PRA	IND	LnGDP CAP
Seniority	1	0,560***	0,166	-0,484***	-0,532***	-0,297**	0,708***	0,513***
IDV		1	0,239*	-0,558***	-0,678***	0,091	0,540***	0,526***
MAS			1	0,043	-0,062	0,087	0,144	0,029
PDI				1	0,633***	0,163	-0,554***	-0,623***
UAI					1	0,176	-0,558***	-0,488***
PRA						1	-0,379***	-0,151
IND							1	0,787***
LnGDP CAP								1

\*significant at the 0.1 level; \*\*significant at 0.05 level; \*\*\* significant at 0.01 level; Seniority = years since the organization was established; IND = individualism; MAS = Masculinity; PDI = Power Distance; UAI = Uncertainty Avoidance; PRA = Pragmatism Orientation; IND= Indulgence; LnGDPCAP.= The natural logarithm of the per capita Gross Domestic Product.

Statistical significant correlations are found between the seniority and the national cultural dimensions, and also between seniority and GDP. Most cultural dimensions are significantly correlated among them and also related to GDP per capita. These relationships have been also found in previous literature (Hofstede, 1991; Orij, 2010).

#### 4.2. Statistical Regression

Two regression models are constructed to test our hypotheses. The first model includes all the independent variables:

$$\text{CODE (1,2,3)} = \beta_0 + \beta_1 \text{SENIORITY} + \beta_2 \text{IDV} + \beta_3 \text{MAS} + \beta_4 \text{PDI} + \beta_5 \text{UAI} + \beta_6 \text{PRA} + \beta_7 \text{IND} + \beta_8 \text{Ln(GDPCAP)} + e \quad (2)$$

Table 4 shows the results of the ordinal logistic regression. The first model is significant at  $p < 0.05$  and has an explanatory power of 0.373 indicated by



Nagelkerke's  $R^2$ . The results show that the score of the cultural dimensions uncertainty avoidance and indulgence, as well as the GDP per capita of the country to which it belongs are significant variables ( $p < 0.05$ ). These results support  $H_5$ , that is, the professional bodies belonging to cultures with high uncertainty avoidance are the ones that have adopted the IESBA Code of Ethics to a lesser extent. Moreover, these results show that the indulgence index is significantly positively related to the adoption of the IESBA Code of Ethics by the national bodies. Finally, the economic level of the country measured by the GDP per capita is negatively related to the adoption of the code. Further, at a significant level of 0.1, other cultural dimensions are also relevant, such as Individualism and Pragmatism.

A second model was tested considering only the national culture variables as well as the GPD per capita as a control variable (table 4). The purpose of this model is to test only the influence of the national differences:

$$\text{CODE (1,2,3)} = \beta_0 + \beta_1\text{IDV} + \beta_2\text{MAS} + \beta_3\text{PDI} + \beta_4\text{UAI} + \beta_5\text{PRA} + \beta_6\text{IND} + \beta_7\text{Ln(GDPcap)} + e \quad (3)$$

This second model is also significant at  $p < 0.05$  and its explanatory power is lower (Nagelkerke's  $R^2 = 0.340$ ). Apart from the variables that were proven to be significant in the first model there are now other variables that gain influence ( $p < 0.05$ ), these are the Pragmatism index and Individualism index. Note that these variables were significant at 0.1 level in the first model. Therefore, there is a negative significant relationship between Individualism and the adoption of the code, which confirms our second hypothesis. Also, there is a positive significant relationship between Pragmatism and the adoption of the code.

In view of the results obtained from the regression models we can affirm that, cultural variables, such as Individualism, Uncertainty avoidance, Pragmatism and Indulgence are significant explaining the degree of alignment that national professional bodies' ethical standards have with the IESBA Code of Ethics. Contrary to what was predicted the seniority of the professional body is not a relevant factor, accordingly, our first hypothesis is not supported.

**Table 4: Regression results for the models, with dependent variable Adoption of the IESBA Code of Ethics**

Independent variable	Predicted sign	Model 1. All variables			Model 2. Excluding seniority		
		$\beta$	Wald value	Sig.	$\beta$	Wald value	Sig.
Intercept 1		-29,627	10,601	0.001***	-27,11	9,527	0.002***
Intercept 2		-27,031	9,273	0.002***	-24,6	8,218	0.004***
Seniority	-	-0,015	1,824	0.177			

IDV	-	-0,045	2,868	0.090*	-0,053	4,065	0.044**
MAS	-	-0,02	2,182	0.140	-0,02	2,091	0.148
PDI	+	-0,014	0,436	0.509	-0,012	0,326	0.568
UAI	-	-0,057	7,619	0.006***	-0,053	6,873	0.009***
PRA	+	0,042	3,687	0.055*	0,044	4,137	0.042**
IND		0,083	5,292	0.021**	0,062	3,931	0.047**
LnGDP		-2,429	7,292	0.007***	-2,188	6,321	0.012**
$X^2$			19.531			17.431	
<i>p value</i>			0.012			0.015	
<i>Nagelkerk's R<sup>2</sup></i>			0.373			0.340	

\*significant at the 0.1 level; \*\*significant at 0.05 level; \*\*\* significant at 0.01 level; Seniority = years since the organization was established; IND = individualism; MAS = Masculinity; PDI = Power Distance; UAI = Uncertainty Avoidance; PRA = Pragmatism; IND= Indulgence; LnGDPCAP.= The natural logarithm of the per capita Gross Domestic Product

## 5. Conclusion

This paper analyzes the current state of the adoption of a single set of ethical standards for the accounting profession in European countries. Further, it explores the variables that could affect the decision to adopt the IESBA Code of Ethics.

Our results reveal that, although the ethical standards harmonization has increased significantly, there are still today some countries that keep their own ethical requirements and in consequence, they have their own code of ethics. Further, although many professional organizations have adopted the IESBA Code of Ethics, some of them, have introduced some additional requirements which impede the benefits of having a unique set of ethical requirements.

Still today we cannot affirm that there is an implementation of a unique set of ethical standards for European professional accountants, not at least at the same degree of accounting and auditing standards. Having a single body of ethical standards, would avoid implementation, training and control costs for international audit firms and for national accounting professional bodies. In addition, a universal code of ethics ensures greater confidence in the accounting profession, by showing society that professionals are guided by the same ethical standards irrespective of the country in which they operate.

Furthermore, we have carried out a logistic regression that enables us to ascertain the relevance of culture in the adoption of the IESBA Code of Ethics. This finding supports the results obtained in previous studies in which culture has been analyzed. The findings in this study reveal that uncertainty avoidance, pragmatism and indulgence are the cultural dimensions that influence the IESBA Code adoption in a

higher degree. These results reveal that culture has still great influence in ethical regulation, above all, the way in which societies deal with ambiguity and uncertainty.

This study did not support the influence of other cultural variables, such as masculinity or power distance on IESBA Code adoption, neither did previous research. The results did not reveal the influence of professional organization's seniority on the IESBA Ethics Code adoption. This result could reinforce the idea of the strong leadership that IFAC has reached. In this sense, even those professional organizations with a large tradition and support from its members have adopted the IESBA Code of Ethics.

This paper contributes to the knowledge of the current state of the ethical harmonization for the European professional accountants and also provides new insights into the barriers or difficulties for having a single set of ethical standards. The strong influence of culture in the adoption of a universal code of ethics may also reveal the existence of impediments for a universal interpretation of the accounting and auditing standards. In this regard, the results of this paper may be used as a standpoint for further research regarding the influence of culture in the interpretation and implementation of accounting and auditing standards.

Moreover, there is some interesting research that could be done in order to advance in the process of having a universal code of ethics. Further research regarding other variables, such as countries' legal system, that may have a bearing on the decision to adopt the IESBA Code of Ethics would be an important contribution.

One limitation of this study is that the data regarding the decision to adopt the Code has been gathered from questionnaires completed by the accounting bodies themselves. The data has been updated by using the information available from plans of action, and this may prove ambiguous on occasions. Further, although Hofstede's dimensions help to operationalize the complex concept of national culture, countries culture may be explained by many other factors.

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